INTRODUCTORY STATEMENT

PRESS CONFERENCE

Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 7 March 2019

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the Commission Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, we have conducted a thorough assessment of the economic and inflation outlook, also taking into account the latest staff macroeconomic projections for the euro area. As a result, the Governing Council took the following decisions in the pursuit of its price stability objective.

First, we decided to keep the **key ECB interest rates** unchanged. We now expect them to remain at their present levels at least through the end of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Second, we intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Third, we decided to launch a new series of quarterly targeted longer-term refinancing operations (TLTRO-III), starting in September 2019 and ending in March 2021, each with a maturity of two years. These new operations will help to preserve favourable bank lending conditions and the smooth transmission of monetary policy. Under TLTRO-III, counterparties will be entitled to borrow up to 30% of the stock of eligible loans as at 28 February 2019 at a rate indexed to the interest rate on the main refinancing operations over the life of each operation. Like the outstanding TLTRO programme, TLTRO-III will feature built-in incentives for credit conditions to remain favourable. Further details on the precise terms of TLTRO-III will be communicated in due course.

Fourth, we will continue conducting our lending operations as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the reserve maintenance period starting in March 2021.

Today's monetary policy decisions were taken to ensure that inflation remains on a sustained path towards levels that are below, but close to, 2% over the medium term. While there are signs that some of the idiosyncratic domestic factors dampening growth are starting to fade, the weakening in economic data points to a sizeable moderation in the pace of the economic expansion that will extend into the current year. The persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets appears to be leaving marks on economic sentiment. Moreover, underlying inflation continues to be muted. The weaker economic momentum is slowing the adjustment of inflation towards our aim. At the same time, supportive financing conditions, favourable labour market dynamics and rising wage growth continue to underpin the euro area expansion and gradually rising inflation pressures. Today’s decisions will support the further build-up of domestic price pressures and headline inflation developments over the medium term. Significant monetary policy stimulus will continue to be provided by our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets and the new series of TLTROs. In any event, the Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council’s inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.2%, quarter on quarter, in the fourth quarter of 2018, following growth of 0.1% in the third quarter. Incoming data have continued to be weak, in particular in the manufacturing sector, reflecting the slowdown in external demand compounded by some country and sector-specific factors. The impact of these factors is turning out to be somewhat longer-lasting, which suggests that the near-term growth outlook will be weaker than previously anticipated. Looking ahead, the effect of these adverse factors is expected to unwind. The euro area expansion will continue to be supported by favourable financing conditions, further employment gains and rising wages, and the ongoing – albeit somewhat slower – expansion in global activity.

This assessment is broadly reflected in the March 2019 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.1% in 2019, 1.6% in 2020 and 1.5% in 2021. Compared with the December 2018 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised down substantially in 2019 and slightly in 2020.

The risks surrounding the euro area growth outlook are still tilted to the downside, on account of the persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets.

According to Eurostat’s flash estimate, euro area annual HICP inflation was 1.5% in February 2019, after 1.4% in January, reflecting somewhat higher energy and food price inflation. On the basis of current futures prices for oil, headline inflation is likely to remain at around current levels before declining towards the end of year. Measures of underlying inflation remain generally muted, but labour cost pressures have strengthened and broadened amid high levels of capacity utilisation and tightening labour markets. Looking ahead, underlying inflation is expected to increase over the medium term, supported by our monetary policy measures, the ongoing economic expansion and rising wage growth.

This assessment is also broadly reflected in the March 2019 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.2% in 2019, 1.5% in 2020 and 1.6% in 2021. Compared with the December 2018 Eurosystem staff macroeconomic projections, the outlook for HICP inflation has been revised down across the projection horizon, reflecting in particular the more subdued near-term growth outlook.

Turning to the **monetary analysis**, broad money (M3) growth decreased to 3.8% in January 2019, from 4.1% in December 2018. M3 growth continues to be backed by bank credit creation, notwithstanding a recent moderation in credit dynamics. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

The annual growth rate of loans to non-financial corporations declined to 3.3% in January 2019, from 3.9% in December 2018, reflecting a base effect but also, in some countries, the typical lagged reaction to the slowdown in economic activity, while the annual growth rate of loans to households remained at 3.2%. Borrowing conditions for firms and households are still favourable, as the monetary policy measures put in place since June 2014 continue to support access to financing, in particular for small and medium-sized enterprises. The policy measures decided today, and in particular the new series of TLTROs, will help to ensure that bank lending conditions remain favourable going forward.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. This is particularly important in view of the overall limited implementation of the 2018 country-specific recommendations, as recently communicated by the European Commission. Regarding **fiscal policies**, the mildly expansionary euro area fiscal stance and the operation of automatic stabilisers are providing support to economic activity. At the same time, countries where government debt is high need to continue rebuilding fiscal buffers. All countries should continue to increase efforts to achieve a more growth-friendly composition of public finances. Likewise, the transparent and consistent implementation of the European Union’s fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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Mr President, could you give us an idea about the reasons why you decided on the specific features of the TLTRO-III programme? For example why are the maturities two years? Why have you indexed it to the MRO, and also why is the start date in September when the funding becomes relevant for banks' Net Stable Funding Ratios in June already.

My second question is what you would like to achieve with this programme, so are you trying to keep the size of the balance sheet stable? Or are you trying to add extra accommodation?

Draghi: The design of the TLTRO responds to a variety of objectives. The key objective derives from how the situation of bank funding looks like over the next few years. In the coming years we will have a congestion for bank funding caused by the coming to maturity of the existing TLTROs, the coming to maturity of sizable amounts of bank bonds, various regulatory compliances. The TLTROs, as has been said in the introductory statement, maintain [and] preserve favourable bank lending conditions and a smooth transition of monetary policy. Now, the precise design, whether it's two instead of four, do reflect the changed conditions we have today. Now, further details especially on the pricing and other details, will get to be known in due time.

Now, the second question really addresses the substance of today's meeting so let me give you a broad account of how this meeting unfolded. In so doing, I think I'm pretty sure I'll respond to some of the questions you intend to ask. First of all, the decisions: It's four sets of decisions. We moved the calendar-based part of our forward guidance from September to December. The second, we confirm the reinvestment in full of the principle payments from maturing securities. Now, you understand the importance of the chained element in our monetary policy. Having moved the calendar-based, so does the expected – well, whatever the horizon is going to be during which the purchases will take place to keep the stock unchanged, so you see this is adding accommodation.

To answer your question, as a matter of fact you asked me is this adding accommodation? The financing conditions have been – well, monetary policy has been very accommodative, but also financing conditions as a matter of fact have even eased since our last meeting. This is also partly due to the structure of our forward guidance so that expected interest rates have gone down since the last meeting and especially at the end of last year as well. Then the third element is the targeted longer-term refinancing operations that we've just discussed. Then we have the fixed-rate tender procedures with full allotment for as long as necessary, at least until the end of the reserve maintenance period starting in March 2021.

Now, what are the features of all these measures? First of all, they are data-driven. These are decisions that have been taken following a significant downward revision of the forecasts by our staff. Second, you've seen and you've just heard me say that optionality is reiterated in all instances, which means that the Governing Council is both willing and committed to act when if needed, amplifying the use of these instruments based on the data. Third is what I just said; all this takes place in an environment where monetary policy accommodation is already very substantial.

Second point is, how did we get to take these decisions? The answer here is that they were unanimous. There was unanimity and I think given the complexity of the package, I think it's a very, very positive sign for the cohesiveness of the Governing Council and of our deliberations. Third, what is the general context in which these decisions have taken place? Well, we're coming – and maybe we still are – in a period of continued weakness and pervasive uncertainty. That's why the forecast has been revised downwards quite significantly. Now, I will come and comment in a moment about the pervasive uncertainty but the factors that have originally caused this weakness, which are mostly of external source, are still there. The uncertainty is partly related to how long these factors will continue affecting the world economy, the eurozone economy and confidence more generally.

There are two observations to make about the assessment of the outlook. First, the Governing Council expressed confidence, all members expressed confidence in the baseline, which means that we assess the probabilities of a recession as being very low, as well as the probabilities of a de-anchoring of inflation expectations are indeed very low in our assessment. What are the reasons? Well, the reasons are the same that underpinned the strength of our economy in our previous meetings; namely nominal wage growth continues, labour market, though at a kind of slower rate but continues to improve, consumption remains by and large in good shape. Monetary policy remains accommodative and now is even more accommodative, and financing conditions, as I said, have eased up. They were already very easy and they eased up further.

There is a second factor that we've taken into account in maintaining this confidence. It's that it's true that these external factors continued to be hanging on, continue to be weighing on the eurozone economy. But it's also true that governments are responding in their respective jurisdictions with policies that are addressing these problems in the US, in China. The second point to be kept in mind is that you've seen that the revision of the inflation path basically says one thing; we have confidence that [inflation] will converge but we also, at this point in time, think that it's going to take longer to get there. Why is it going to take longer? Well, the weaker growth probably will further slow down the pass-through from higher nominal wages to higher prices, higher inflation and possibly also slow down the closure of the output gap. In other words, the ~~outward~~ output gap now is closing. These two reasons are important to be kept in mind.

Now, the other important part of today's decision is that we maintained the risk assessment as tilted to the downside. This is infrequent because we usually say when we take some policy actions, the risks get back into balance, but it's happened on other occasions in the past, but not frequently. Why is that? Well, because we are aware that our decisions certainly increase the resilience of the eurozone economy but actually can they address these factors that are weighing on the eurozone economy in the rest of the world? They cannot, so the threat of protection is one factor. Geopolitical considerations also related to whatever happens about the United Kingdom Brexit or United Kingdom exiting, or not exiting, or in the forms in which they will exit from the European Union. The emerging market vulnerabilities, what's happening in China, we know that the Chinese government has reacted, the US government has – the US monetary policy has changed. For example in the US, we have to take into account that there is going to be a waning effect of the fiscal package so a slowdown is projected there all over.

Basically, our actions increase the resilience of the eurozone economy and so make us confident, keep us confident that convergence to a sustainable rate of inflation – our objective – will happen.

Can I ask you about what you said a little bit earlier, that you are standing ready to adjust all of your instruments available? Does that also include the net asset purchase programme? Could you revive it in case the economy is not going any way better, the inflation outlook is going to worsen?

Then I have a question on the underlying assumption of your growth and inflation estimates. Is the underlying assumption that the US and China will come to an agreement on trade or not?

Draghi: The answer to the second question is that our projections take into account the protectionist measures that have already been implemented, but they don't project an assessment of future measures or of how the current negotiation will actually end.

On your first question, well, you see optionality is everywhere. Now, the issue is whether we see contingencies that would justify the use of certain instruments instead of others. I don't want to speculate at this point in time. At this point in time, we've just taken all these decisions and we think they are the right decisions and the adequate decisions to be taken at this point in time.

Let me add one thing: we didn't tighten when we stopped the net asset purchase programme. We didn't tighten monetary policy contrary to what some of you say. I'm not even sure it's one of you, but just it's been said. We didn't tighten at all. Just to give you an idea, the balance sheet of the ECB is about 42 - 43% of the eurozone GDP. The Fed is about half of it now. In order to keep this stock unchanged, we continue purchasing something in the order of €20 billion a month of bonds.[1]

This happens in a context where the debt to GDP ratio in the eurozone is actually falling. The simple action of maintaining the stock unchanged in this context actually is a continuous easing because interest rates are pushed downward by this action. You can see this because since we decided in June last year, interest rates have gone down, they keep on going down, the term premium is negative, so conditions are very, very accommodative. If you add to this what I've just said, it's the chained element of this, of the horizon over which we'll carry out purchases to keep the stock unchanged moves together with the forward guidance.

To finish the answer, what today's decisions also say is that we've changed the calendar-based part of our forward guidance based on the information we have today and it's data driven. In this sense we are very open to act and determined to act when it's needed.

Ahead of the meeting there was some talk from some of the members of the Governing Council about whether or not to introduce a tiered system, whether to start by raising the deposit rate. I'm just wondering, was there any trade-off in terms of extending the guidance to the end of this year rather than, say, further into 2020 in order to not have to make any commitment to move to some sort of tiered system and in order to have the unanimity behind the decisions that you've had today?

Having said that, even though the guidance on rates isn't extended as far as markets are now foreseeing for the first rate rise, there is a broad sense in which you've got ahead of the curve today and that you have really surprised people by not only announcing something on TLTROs but also announcing that you've shifted your message on forward guidance. Can you maybe explain a little bit about the reaction function here, why you've decided to deploy these 'shock and awe' tactics? Was there something in particular that has scared you that you've seen in the recent data?

Draghi: Several members of the Governing Council presented the option of changing the calendar date of the forward guidance to March next year. In a way, that was an option. And other members discussed what the consequence of a protracted period of time with negative rates, so lower or low for longer, could imply for banks. But there was no trade-off between the two, there was no trade-off and in the end we converged on a package that basically reflected the views of all the members of the Governing Council.

Now, the second part of your question is whether… Well, markets have pretty well understood our reaction function. So in placing the expected date of the lift, [of] the DFR, some time in 2019 – before it was later, now it's moved back – and so the changing calendar in the calendar part in the date of our forward guidance becomes necessary when you kind of want to give credibility. Because clearly, if you have market expectations which are far away from the foreseen date of the guidance, then of course credibility becomes an issue. In this sense, I think we've if anything enhanced the credibility of the forward guidance with today's decision.

In your statement you said there would be some incentives built into the TLTROs. I'd like to find out a bit more about this, what kind of incentives. Is the MRO the lowest rate banks could pay? Or do the incentives take it lower, possibly?

The second question is about the Supervisory Board and I'm curious why you left three positions vacant, a fourth one is going to be vacant very soon. Why are you not picking people to the Supervisory Board? What's the benefit of depleting the Supervisory Board?

Draghi: The first question is really, I can't say more than I said in the introductory statement. The pricing, the shape and other details on the TLTRO will be made known in due time. What I just said about whatever incentives, the language you've just quoted, it's the intention of designing in a way that gives built-in incentives for credit conditions to remain favourable, but doesn't get further into being more specific at this point in time.

On the Supervisory Board, yes, well, it is a process which will be carried out in a completely transparent way in the coming weeks. It's with a change in the chair and so on, so everything's been delayed; it will take place soon.

I have one question on the timing. Markets were quite surprised about your decisions today. Why did you decide to act now, because many people have argued before the meeting that there is such a high uncertainty and that it would be maybe better to wait to see if these uncertainties materialise or not.

My second question is: On your forward guidance you kept the state-contingent part and the time-contingent part. Why have you kept the time-contingent part, because you also said it could be pushed further ahead and would it not give you more flexibility to just have the state-contingent part?

Draghi: Well, two things were present; pervasive uncertainty but also a definite worsening in the projections. The fact that the climate has become more uncertain doesn't mean that one has to stay put. You just do what you think is right and you temper, however, what you are doing with a consideration there is uncertainty. In other words, in a dark room you move with tiny steps. You don't run, but you do move. Or in other words, you try to be proactive rather than reactive to contingencies because, for a variety of reasons, the situation can then unfold in an unforeseen and unwanted way. That's the answer to the first question.

The second question, our forward guidance has been designed with two legs; the state and the time. Both of them reinforce each other and both of them give credibility to each other. To have a state only is kind of, as you said, perhaps gives more flexibility but at the same time, being vaguer is less effective.

Could you elaborate a bit more on the choice of the TLTRO with T instead of an LTRO; what have been the reasons for this?

Just one question more: do you want to make any comment on the statement of the ECB that has confirmed that you are going to end your mandate without hiking the interest rates?

Draghi: I make no comments. First of all, it's not me, it's the Governing Council, but I have no comments to make.

Now, the other point actually has been discussed. The first LTROs were quite effective for the time when they had been designed. But they were used – not 100% of course – but they were used also to kind of buy sovereign bonds. At that time, the yields on bonds were high and banks especially in parts of the eurozone, where to lend to the economy was very risky because these parts were in huge recession, they bought sovereign bonds. What then we wanted to achieve with the “T” was to make sure to minimise this possibility to make sure the banks borrow at a very good rate, but in order to lend to the economy and to firms and households in the private sector, not to buy sovereign bonds.

I have two questions. One is on markets that have been surprised and actually we, I think, have also been surprised by these moves for – bold moves in accommodation that was already very ample. Is your message not only to the markets but also to European governments? Is Europe, to your view, reacting as you are reacting - in a bold manner to the deterioration of the economy?

I know there is a lot on the plate so I don't want to go too far on the toolbox of others, but I've seen that Philip Lane now is confirmed as new Executive Board member. He's also linked to a project of safe assets. Do you feel that the ECB has enough in its toolbox? Do you feel that Europe has enough in its toolbox as well?

Draghi: Let me first respond to the first part. It's easy for us to plead for more action at European level in all directions; institutional, policies and so on. I think we should do it, but we should be aware that these are political decisions that governments can take or have to take, but they have to explain to their citizens. It's relatively easy to advise about the right policy, much more difficult is to implement it in a democratic society, of course. I think certainly, I've said many times, the European construction is still fragile. The completion of the Monetary Union is essential. The completion of the banking union is essential, capital markets union are all essential things. By the way, some of these things are very, very close to being implemented because much of this has been agreed. The remaining differences don't seem to be of an order of magnitude that could stop the whole process. I would say when the political contingencies, when the political stars will align, I am absolutely confident we'll see fast progress on all these fronts.

Now, Philip Lane is an excellent acquisition for the ECB but we are not going to ask him about this Eurobond thing. The Eurobond is again not something that the ECB can force or just decide about; again it's an inherently political decision. And of course this doesn't detract at all from the argument that it's absolutely rational to have a safe asset at European level. It's fundamental, but one thing is to say it's fundamental, another thing is to decide and defend this decision in front of your citizens, which may have different views about that from the ECB.

Two questions, if I may. The TLTROs are also kind of subsidies for banks, especially for weak banks. A lot of these banks are paying dividends to their shareholders and bonuses to their senior managers. Do you think this fits together with the subsidies?

My second question: some economists are thinking the ECB policy was behind the curve in the last quarters, meaning monetary policy was not fully in line with the economic cycle. Do you

understand these critics or do you think the criticism is unfair?

Draghi: Well, on your first question, a TLTRO is an operation which allows banks to borrow money from the ECB at somewhat more favourable terms than the banks could do going to the market. And that's the essence. So the issue is not whether there is a subsidy or not; there is a subsidy. Now, it depends very much on how it's designed of course. If there were no subsidies then nobody would take up the TLTROs. The issue is whether the TLTRO fulfils monetary policy objectives and helps the transmission of monetary policy. We believe it has always done that, it's been very effective, as a matter of fact, in reactivating the banking sector in the eurozone and in transmitting – especially the TLTRO – transmitting the better lending conditions to firms and households, to the private sector in the economy. I think that's the yardstick of successful TLTRO and certainly I have all reasons to think this will be designed exactly with the same effectiveness.

Your other question was? Oh, behind? Well, we never thought we were behind the curve. I think we've been… Well, in any event, today we are not behind the curve for sure, but even before. Because the way the monetary policy has been designed after June, would produce automatic accommodation that would make financing conditions easier as far as the monetary policy component is concerned. Then of course since I said and it was like that before, too, just since we are in our deliberations data driven, when it's become necessary to add to this automatic process, we did it.

Mr Draghi, my first question was on QE; was there any discussion this week about restarting the programme? Would that be the next tool you could use in the event of a downturn around no-deal Brexit for instance?

The second question is: given the length of the eurozone recovery so far, is there a risk that the economy is becoming too dependent on ECB stimulus?

Draghi: Well, the answer is no to both questions, actually. There was no discussion about QE, not at all, and there is no lack of recovery in the eurozone economy. I have dwelled long enough on the worsening of the economic outlook, but we're all still talking about weaker growth. We are talking about expansion. The economy continues to expand, the labour market continues to add jobs. Nominal wages continue to grow - as a matter of fact, at a higher rate than they used to a year go or two years ago. Even, interesting, the dispersion amongst growth rates of nominal wages across sectors and countries is now at a historical minimum. The point is that we've got to be patient in terms of pass-through. We see nominal wages going up and we don't see prices going up at the same time. We have to be patient, because first of all, now we are having a slowdown but also because the mechanism whereby increasing the cost, wages and also other parts of the cost components are transferred into prices, has changed structurally in the last few years. You've seen this in the United States and you're seeing this in Europe now.

Mr Draghi, given that the 2021 inflation forecast is already only 1.6%, if any external shocks were to materialise, can you envisage a situation in which the deposit rate could be lowered even further? Was there any discussion of this at today's meeting?

My second question was: It's been argued that high current account surpluses have a detrimental effect on inflation across the eurozone. Might one answer to disappointing inflation rates be to adopt a tougher stance towards those countries whose surpluses exceed… Sorry,

might one answer to disappointing inflation rates be to adopt a tougher stance towards those countries whose surpluses exceed 6% of GDP?

Draghi: First question: no, there was no discussion.

The second question, you find a hint in the introductory statement about how a proper fiscal policy could actually help not only the recovery, not only the convergence of inflation to our objective path, but also on the issue of external surplus when you read the last section of our introductory statement, which says: “The implementation of the country-specific recommendations as recently communicated by European Commission, has been scant or not much at best.” Then it says - it's a change with respect to previous IS: “regarding fiscal policies, the mildly expansionary euro area fiscal stance and the operational automatic stabilisers are providing support to economic activity.” Then it goes into the same usual statement for countries with high debt.

You see that there is a clear recognition of what you said, but again to this I would apply the same degree of humility that I would apply to the – in answering to the question about Europe and whether Europe is responding or not, are political decisions. Even though we may be convinced that it's right, we also have to be aware that we are not the ones who implement these decisions.

My first question is also on the deposit facility rate: you mentioned that there was a discussion about the potential risks to banks following this low for longer interest rate policy. I'm not sure; have you also discussed ways to mitigate the adverse effects or discussed when there might be a point in time when you have to decide on such things?

The second question, you mentioned several times optionality is everywhere and that the toolbox is rich. Is also helicopter money part of the toolbox, especially given the fact that you've called it once an interesting concept?

Draghi: Yes, well, there was a concession to my past academic experience, but no. The answer is no to both questions and the effect that negative rates might have on banks' balance sheets is complex and was not… The specific mitigating measures were not discussed. There was a discussion about the need to examine this issue in depth because negative rates have been quite successful in our monetary policy. They were a powerful instrument in enhancing, fostering the recovery and converging to price stability and achieving our objective.

There are several analyses trying to assess what's the effect of negative rates for some time on banks' profitability but they're very, very complicated. First of all, we're talking about aggregates. Now, the way in which a negative rate affects the banks' profitability depends very much on what business model the bank has. You have situations where this influence is very, very important – it's significant – and situations where it's not. If you combine in the aggregate you don't see much in spite of the many years that have passed by. So, it's been successful.

Second point, one may argue that certainly at the beginning combined with QE, there were benefits coming from the recovery, coming from the selling of the bonds with QE and there were costs coming from the negative rates. Now, how all this has evolved through time is quite complicated. Also again talking about the aggregates, but that's why I'm not satisfied with looking at aggregates so much, but that's what we have to do. You see that when you talk about profitability of European banks, well, it's certainly lower than profitability of American banks, but not much lower than UK or Japan, whether they have mitigating measures or not. There are many elements that affect the profitability, so we have to look at this issue in somewhat greater detail. Not necessarily related to the negative rates but more generally, what are the components of banks' profitability that are being affected by our monetary policy and one of which is the negative rate.

My question is: How much of the 2019 GDP slowdown is due by the Italian economic situation and why?

Draghi: Thank you because I didn't comment exactly on the factors for the slowdown of 2019. There are two sets of factors; external and internal to the eurozone. The external factors are – I hinted at them before - it's mostly a slowdown in world trade due to a slowdown in China, various emerging market vulnerabilities, a potential slowdown in the United States and I think a general sort of lower confidence produced by the trade discussions. Let's call them this way. Certainly this diminished confidence filters through countries and sectors and it's one major factor for the slowdown in the eurozone economy. Then we have internal factors. Some of them are sector specific and country specific; namely car industry in Germany. But there are also other sectors in other countries, one of which is certainly Italy. We know what has produced the slowdown. Where the uncertainty comes into play is, how long these factors will be weighing on the eurozone economy.

Two questions, if I may, Mr Draghi. The first is a follow-on question to the gentleman to my left. Are there any other regions or industries that you think are particularly vulnerable that you may be keeping an eye on?

The second question is; do you have any concern that equity markets are a little bit more concerned about a recession than you may be. I say that because I'm looking at the equities that are doing well. They're very defensive stocks, cyclical stocks. Do you have any concerns that the markets are more bearish than you may be?

Draghi: Well, I'm not sure that equity markets are more bearish because they actually regained everything they lost in the last part of the year last year. They gained it back and plus, but we have to see what are the sources of this increase in stock prices. In some parts of the world, this is caused mostly by earnings expectations that are good. In other parts of the world, this is caused by a decrease in risk premium and earning expectations actually appear to have less of an influence in explaining price increases. I think that says something about the expectations about the economy, the future evolution of the economy. Mind, there is another factor which actually has played quite an important role especially at the beginning of this year and that's the discount factor; namely if people have a lower discount factor they tend to have higher valuations for the stocks. Therefore that's the element that's mostly affected by monetary policy – or expectations about the discount factor.

Updated on 12 March 2019 to correct an error in the transcript of the questions and answers. See the strikethrough text above.

1. [1]Expected monthly redemption amounts for the APP over the coming 12 months vary between €5.4 and €31.7 billion, see Asset purchase programmes.

CONTACT

European Central Bank

Directorate General Communications

- Sonnemannstrasse 20
- 60314 Frankfurt am Main, Germany
- +49 69 1344 7455
- media@ecb.europa.eu

Media contacts